

SCOTT COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year ended June 30, 2004

SCOTT COUNTY SCHOOL DISTRICT

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SCOTT COUNTY SCHOOL DISTRICT

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Scott County School District
Georgetown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Scott County School District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Scott County School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 20, 2004, on our consideration of Scott County School District's internal control structure and a report dated September 20, 2004, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information shown on pages 42 through 50 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on pages 51 through 52 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 10 and pages 40-41 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Carpenter, Mountjoy & Bruesch, P.C.

Lexington, Kentucky
September 20, 2004

**SCOTT COUNTY PUBLIC SCHOOL DISTRICT – GEORGETOWN, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2004**

As the management of the Scott County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the second year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash, cash equivalents and investments balance for the District's governmental funds was \$23.1 million in 2003 and \$29.9 million for 2004, reflecting an increase of \$6.8 million. Much of this \$5.9 million difference represents an increase in construction funds generated from school construction revenue bonds.
- Total general fund revenue increased by 4.05% in 2004. Revenue from local sources increased by 3.42%, while direct state revenue increased by 5.80%.
- Among major funds, the general fund had \$36 million revenue, which primarily consisted of local property, local occupational license taxes, utility and motor vehicle taxes, federal programs (ROTC), state funding (SEEK program) and on behalf revenues (STATE). Expenditures totaled \$35.7 million for fiscal year 2004.
- On November 11, 2003, the Board approved an "Inter-local Cooperation Agreement" that called for the creation of the Georgetown/Scott County Revenue Commission to administer the collection of the Occupational and Net Profits taxes for the City of Georgetown, the Scott County Fiscal Court and the Scott County Board of Education. The Georgetown/Scott County Revenue Commission, a nonstock, nonprofit corporation was organized pursuant to the Kentucky Nonprofit Corporation Act, KRS 273.161.
- On March 1, 2004, the Board issued \$12.1 million in School Building Revenue bonds to renovate and expand the capacity of Southern Elementary School, perform roof repair at both Central Office and the Ninth Grade School, and renovate Garth Elementary.
- On June 1, 2004, the Board issued \$4.5 million in School Building Revenue Bonds to finance the construction of an addition to Western Elementary School.
- As of June 30, 2004, net assets invested in capital assets, net of related debt had a negative balance due to the fact that the above-listed bond issues were made during fiscal year 2004 for construction projects that were incomplete as of year end.
- Bonds are issued as the District constructs and renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total outstanding principal of School Building Revenue Bonds at June 30, 2004 is \$70,525,000 and represents a net increase of \$14,825,000.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Proprietary funds include vending and food service operations. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support.

The basic governmental fund financial statements can be found on pages 11 through 22 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$22.7 million as of June 30, 2004.

The largest portion of the District's net assets is the product of its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2004

This is the second year that the District is following GASB 34 and comparing assets, liabilities and net assets. Government-wide net assets for 2004 compared to 2003 are as follows:

	2004	2003
Current Assets	\$ 36,478,093	\$ 24,972,969
Noncurrent Assets	<u>61,677,451</u>	<u>53,157,502</u>
Total Assets	<u>\$ 98,155,544</u>	<u>\$ 78,130,471</u>
Current Liabilities	\$ 6,804,314	\$ 5,365,437
Noncurrent Liabilities	<u>68,674,751</u>	<u>54,871,840</u>
Total Liabilities	<u>\$ 75,479,065</u>	<u>\$ 60,237,277</u>
Net Assets		
Investment in capital assets (net of debt)	\$ (9,696,416)	\$ (3,487,875)
Restricted	28,941,608	17,894,492
Unreserved Fund Balance	<u>3,431,287</u>	<u>3,486,577</u>
Total Net Assets	<u>\$ 22,676,479</u>	<u>\$ 17,893,194</u>

- Current assets increased by \$11,505,124. The Construction Fund and Building Fund increased by \$11,646,595, General Fund by \$394,304. The Special Revenue Fund, Debt Service Fund and Trust Fund decreased by \$535,775.
- Noncurrent Assets increased by \$8,519,949. This is primarily associated with construction and renovation of facilities and purchase of six new school buses.
- Current liabilities increased by \$1,438,877 with an increase in current portion of long term obligations accounting for \$900,000 of this amount.
- Noncurrent liabilities increased by \$13,802,911 with an increase in noncurrent portion of long term obligations of \$13,910,000, accrued sick and vacation leave of \$42,919 and a decrease in non-current portion of capital leases of \$150,008.
- Net assets increased by \$4,783,285. The change in investment in capital assets (net of debt) is illustrated in Note E – Capital Assets, page 32. Fund balance change of \$10,991,826 includes increases in reserve for encumbrances of \$6,338,293 (primarily related to construction) and \$3,165,575 in reserve for construction.

Comments on Budget Comparisons

- The District's total Governmental fund revenues, net of interfund transfers, were \$47 million in 2004.
- The General Fund budget as compared to actual revenue and actual expenditures varied from line item to line item. A variance comparison is presented on page 40 between the fiscal budgeted amounts and the actual amounts.
- General Fund revenues were budgeted at \$35,238,711 with an actual total of \$36,058,958 for a favorable variance of \$820,247.

Comments on Budget Comparisons - Continued

- The Scott County School District, as authorized under KRS 160.593 levies an occupational license tax for schools as provided for in KRS 160.605 and KRS 160.607. This one-half of one percent (0.5%) occupational license tax is levied against salaries, wages, commissions, and other compensation of individuals for work done and services performed or rendered in Scott County, and on the net profits of all businesses, professions, or occupations from activities conducted in Scott County. Historically, the Scott County Board of Education is conservative in projecting budgeted revenues from this tax levy. In fiscal year 2003, occupational license tax receipts totaled \$3,137,585. The budget for fiscal year 2004 totaled \$3,020,986 with actual collections totaling \$3,958,771.
- This is the second year that "on behalf revenues" and corresponding expenditures have been shown as a components of the Scott County School District's (SCSD) annual financial report. The Kentucky Department of Education makes payment on behalf of school districts for matching contributions for employees covered under the Kentucky Teachers Retirement System (KTRS) and the Kentucky Public Employee Health and Life Insurance programs. These "on behalf" revenue and corresponding expenditures were included in the Scott County School District's budgeted amounts. The "on behalf" payments included in actual revenues and expenditures are as follows:

	BUDGET	ACTUAL	ACTUAL
Revenues:	2004	2004	2003
State "on behalf" revenues	\$ <u>5,026,544</u>	\$ <u>4,747,196</u>	\$ <u>4,742,022</u>
Total revenues	\$ <u>5,026,544</u>	\$ <u>4,747,196</u>	\$ <u>4,742,022</u>
Expenses:			
Instruction	\$ 3,677,497	\$ 3,419,725	\$ 3,444,973
Student Support Services:			
Student	305,523	305,460	288,229
Instructional Staff	189,239	146,512	178,527
District Administration	29,272	31,039	27,615
School Administration	279,166	276,150	263,647
Business	44,436	44,860	41,921
Plant Operations	183,203	201,368	172,833
Student Transportation	286,189	268,299	269,990
Central Office Support			24,081
Facilities Acquisition and Construction	14,197	13,663	13,393
Community Support	<u>17,822</u>	<u>40,120</u>	<u>16,813</u>
Total expenses	\$ <u>5,026,544</u>	\$ <u>4,747,196</u>	\$ <u>4,742,022</u>

On-Behalf revenues were projected to increase by 6.0% over actual 2003, but increased by .109%.

Comments on Budget Comparisons - Continued

- Budgeted expenditures of \$39,329,496 included \$1,969,138 for contingencies. Actual expenditures totaled \$35,684,049.
- The SCSD General Fund budget is controlled at the project level by budget coordinators. Each project may include more than one function area. The presented actual expenditures include actual payment of expense, plus account payables (amounts owed for goods received and service provided to SCSD) on June 30, 2004. In addition to the presented expenditures, the SCSD had outstanding \$630,391 in encumbrances. Encumbrances represent orders and commitments by SCSD for goods and services from the Fiscal 2004 budget.
- Budget allocations to Site Based Decision Making Councils (SBDM) for salaries, supplies and programs totaled \$16,188,185. The Scott County Board of Education approves requests from SBDM Councils to carry any unobligated allocation to the next fiscal year. This approved carry over at June 30, 2004 totaled \$397,008. These unobligated funds were budgeted under School Administrative Support Services.
- The \$695,467 budget to actual variance in regards to Instruction is comprised primarily of the following: a \$257,772 budget excess in regards to on-behalf payments, \$80,669 budget excess for salary and fixed costs, and outstanding encumbrances of \$311,198.
- The SCSD maintains an expense budget as a reserve for contingency. On June 30, 2004 this contingency reserve totaled \$1,969,138 and was classified under District Administrative Support Services.
- The effect of the presented expenditures budget to actual variance is as follows:

	<u>Variance</u> <u>Favorable/(Unfavorable)</u>
Expenditure variance as presented	\$ 3,645,447
Less: Encumbrances	630,391
SBDM carry-over allocation	397,008
SCSD contingency reserve	<u>1,969,138</u>
Remaining favorable expenditure variance	\$ <u>648,910</u>

The \$ 648,910 remainder of the favorable expenditure variance represents 1.65% of the Fiscal Budgeted Expenditure Amounts.

The following table presents a comparison of revenue and expenditures for governmental funds only for fiscal 2003 and 2004.

	2004	2003
Revenues:		
Local revenue sources	\$ 18,981,850	\$ 17,163,446
State revenue sources	20,857,691	19,381,215
On-behalf revenue (State)	4,747,196	4,987,378
Federal revenue sources	<u>2,439,432</u>	<u>2,558,075</u>
Total revenues	\$ <u>47,026,169</u>	\$ <u>44,090,114</u>
Expenditures:		
Instruction	\$ 26,216,885	\$ 25,569,909
Student Support Services	1,979,976	1,887,887
Instructional Support	1,783,730	1,637,104
District Administration	775,043	508,849
School Administration	2,009,643	1,869,995
Business Support	681,863	519,766
Plant Operations and Maintenance	3,410,210	3,271,574
Student Transportation	2,782,179	2,477,063
Facilities Construction	7,465,600	7,334,086
Community Support	709,305	713,252
Debt Service	4,669,546	4,329,408
Central Office		424,595
Other	<u>33,665</u>	<u>13,352</u>
Total expenses	\$ <u>52,517,645</u>	\$ <u>50,556,840</u>
Expense in Excess of Revenue	<u>(5,491,476)</u>	<u>(6,466,726)</u>
Other Financing Sources:		
Proceeds from sale of bonds	\$ 16,600,000	\$ -
Proceeds from sale of fixed assets	4,490	3,095
Operating transfers (net)	<u>(2,034)</u>	<u>(19,000)</u>
	\$ <u>16,602,456</u>	\$ <u>(15,905)</u>
Excess deficit of revenue and other financing sources over expenditures and other financing uses:	\$ <u>11,110,980</u>	\$ <u>(6,482,631)</u>

- Expenditures for 2004 and 2003 by fund group are summarized as follows:

	2004	2003
General Fund	\$ 35,684,048	\$ 34,004,051
Special Revenue Fund	4,983,289	5,053,626
Construction Fund	7,290,044	7,169,755
Debt Service Fund	4,449,438	4,329,408
Other Governmental Funds	<u>110,826</u>	<u>-</u>
Total	\$ <u>52,517,645</u>	\$ <u>50,556,840</u>

- Governmental Fund expenditures increased 3.88% in 2004 of which the General Fund accounted for 85.68% of this increase. Variances in the Special Revenue Fund, Construction Fund and Debt Service Fund were insignificant. The \$110,826 in Other Governmental Funds represents property insurance premium approved to be paid from Capital Outlay Funds (SEEK) in 2004. This premium was paid from the General Fund in 2003.
- The General Fund expenditure increase of \$1,679,998 is reflective of a \$927,031 increase in salary and salary related costs. Certified staff were provided an annual increase of \$1,080, while classified staff were provided a 2.7% increase. These amounts were mandated by the Kentucky General Assembly in addition to experience and educational (step and rank) increases. Additionally in 2004, the District purchased six buses and two support vehicles at a total cost of \$434,405. Bus purchases in 2003 were funded through a lease purchase agreement. No support vehicles were purchased in 2003. Costs incurred in opening Anne Mason Elementary included \$395,310 for instructional supplies, library books, textbooks, software and \$78,026 for equipment. Property insurance at a cost of \$110,826 was paid from the capital outlay fund in 2004; \$97,717 was paid from the General Fund in 2003.

Changes in presented expenditures by function:

- The National Center for Education Statistics in the Financial Accounting for Local and State School Systems, 2003 Edition deleted the function, Central Office Support. This function was merged into related existing functions in fiscal year 2004. In 2003, \$424,595 was reported as Central Office Support. The following schedule reflects the effect of this reclassification:

	2004	2003
Instructional Staff Support	\$ 272,160	\$ 201,523
District Administrative Support	89,560	96,141
Business Support	<u>117,487</u>	<u>126,931</u>
Total	\$ <u>479,207</u>	\$ <u>424,595</u>

- Instructional Support Services increased by 8.96%, which is reflective of the previously noted reclassification.
- District Administrative Support Services increased by 52.31% of which, 33.65% of this increase is reflective of the previously noted reclassification. Tax collection fees for collection of property taxes increased \$50,672, other professional services increased \$16,398 and supplies by \$5,382, which is reflective of costs related to start up and operational cost of the Georgetown Scott County Revenue Commission. An increase of \$46,947 in Special Revenue fund was from a Scott Education Foundation grant.

Changes in presented expenditures by function – continued:

- Business Support Services increased by 31.19% of which, 72.48% of this increase is reflective of the previously noted reclassification. Increased cost of salaries and related fixed costs, auditing services and upgrades in computers and related equipment account for the balance of this increase.
- Student Transportation Support Services increased by 12.32 %. Bus purchases of \$384,007, increases in salary and related salary cost of \$207,576 and the classification of bus leases purchases \$220,108 in 2004, \$171,614 in 2003 account for the significant changes in individual accounts.
- Central Office Support Services was reclassified in 2004 as previously noted.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget for 2004 with \$1.8 million in contingency or 3.89% of the total budget. The Board has designated \$709,644 of this amount for facilities. Significant Board action relevant to the District's finances includes the renovation and addition to Southern Elementary, an addition to Western Elementary, and construction of an additional middle school.

The Scott County School District has experienced an average annual growth in student enrollment of 209 students or 3.48% annually since 2000. To accommodate this increase in enrollment, the District has been building new schools and renovating and expanding existing schools. These new and expanded facilities come with increased cost for utilities; maintenance of grounds and facilities, and additional personnel costs (both administrative and support staffing.) New schools also require funds for the purchase of computers, library books, instructional materials and equipment that can only be paid from the General Fund.

In the past, these costs have been offset by increases in State funding (SEEK), increases in business and residential property subject to local taxation, and increases in utility, occupational, and net profits tax revenues. However, as with all Kentucky school districts, revenue from property tax is limited to a 4% annual growth on previous year existing property.

These growth related costs, along with the continuing need to increase student capacity and limited State revenue growth, will create budgetary challenges for the Scott County School District.

With the careful planning and monitoring of District finances, Scott County Public Schools' goal is to continue to provide a quality education for our students and a secure financial future for the school district.

Questions regarding this report should be directed to the Superintendent (502) 863-3663 or to Randall Cutright, Director of Business and Finance (502) 570-3030 or by mail at 2168 Frankfort Pike, Post Office Box 578, Georgetown, Kentucky 40324.

SCOTT COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS

June 30, 2004

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 2,540,264	\$ 391,595	\$ 2,931,859
Inventory	70,249	57,304	127,553
Accounts receivable			
Taxes – current	708,956	-	708,956
Taxes – delinquent	8,782	-	8,782
Accounts receivable	4,563,138	900	4,564,038
Intergovernmental – State	73,542	-	73,542
Intergovernmental – Indirect Federal	507,029	146,416	653,445
Intergovernmental - Direct Federal	16,861	-	16,861
Investments	<u>27,393,057</u>	<u>-</u>	<u>27,393,057</u>
Total current assets	<u>35,881,878</u>	<u>596,215</u>	<u>36,478,093</u>
<u>Noncurrent Assets</u>			
Capital assets, net	55,060,591	481,993	55,542,584
Non-depreciable assets	6,021,461	-	6,021,461
Bond issue costs	<u>113,406</u>	<u>-</u>	<u>113,406</u>
Total noncurrent assets	<u>61,195,458</u>	<u>481,993</u>	<u>61,677,451</u>
Total assets	\$ <u>97,077,336</u>	\$ <u>1,078,208</u>	\$ <u>98,155,544</u>
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 1,673,376	\$ 4,107	\$ 1,677,483
Accrued payroll and related expenses	104,133	-	104,133
Interest payable	824,199	-	824,199
Current portion of long-term obligations	2,670,000	-	2,670,000
Current portion of capital lease obligations	150,008	-	150,008
Current portion of accrued sick leave and accrued vacation	483,812	-	483,812
Deferred revenue	<u>894,679</u>	<u>-</u>	<u>894,679</u>
Total current liabilities	<u>6,800,207</u>	<u>4,107</u>	<u>6,804,314</u>
<u>Noncurrent Liabilities</u>			
Noncurrent portion of long-term obligations	67,915,000	-	67,915,000
Noncurrent portion of capital lease obligations	525,453	-	525,453
Noncurrent portion of accrued sick leave	<u>234,298</u>	<u>-</u>	<u>234,298</u>
Total noncurrent liabilities	<u>68,674,751</u>	<u>-</u>	<u>68,674,751</u>
Total liabilities	75,474,958	4,107	75,479,065
<u>Net Assets</u>			
Invested in capital assets, net of related debt	(10,178,409)	481,993	(9,696,416)
Restricted for:			
Capital Projects	13,468,576		13,468,576
Debt service	13,308,088	-	13,308,088
Other purposes (nonexpendable)	2,164,944	-	2,164,944
Unrestricted	<u>2,839,179</u>	<u>592,108</u>	<u>3,431,287</u>
Total net assets	\$ <u>21,602,378</u>	\$ <u>1,074,101</u>	\$ <u>22,676,479</u>

See accompanying independent auditor's report and
notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

FUNCTIONS/PROGRAMS

	Program Revenues			Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						
Instruction	\$ 26,980,458	\$ 4,956,726	\$ 6,610,910	\$ -	\$ (15,412,822)	\$ -
Support services:						
Student	1,981,184	-	-	-	(1,981,184)	-
Instruction staff	1,764,244	-	-	-	(1,764,244)	-
District administrative	805,146	-	-	-	(805,146)	-
School administrative	2,041,389	-	-	-	(2,041,389)	-
Business	694,021	-	-	-	(694,021)	-
Plant operation and maintenance	3,421,272	15,917	-	-	(3,405,355)	-
Student transportation	2,441,660	-	-	-	(2,441,660)	-
Central office	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-
Community service activities	708,875	-	76,867	-	(632,008)	-
Debt service	3,020,304	-	-	-	(3,020,304)	-
Food service	16,165	-	-	-	(16,165)	-
Other	-	-	-	-	-	-
Total governmental activities	<u>43,874,718</u>	<u>4,972,643</u>	<u>6,687,777</u>	<u>-</u>	<u>(32,214,298)</u>	<u>-</u>
Business-Type Activities:						
Food service	2,170,985	1,206,221	940,607	123,249	-	99,092
Other	70,982	21,918	23,909	-	-	(25,155)
Total business-type activities	<u>2,241,967</u>	<u>1,228,139</u>	<u>964,516</u>	<u>123,249</u>	<u>-</u>	<u>73,937</u>
Total primary government	<u>\$ 46,116,685</u>	<u>\$ 6,200,782</u>	<u>\$ 7,652,293</u>	<u>\$ 123,249</u>	<u>\$ (32,214,298)</u>	<u>\$ (32,140,361)</u>

General Revenues:

Taxes:	
Property taxes	8,619,130
Motor vehicle taxes	1,308,911
Utility taxes	2,502,646
Occupational and license taxes	3,958,771
Revenue in lieu of taxes	1,245,377
State and formula grants	16,686,213
Losses on sale of fixed assets	(46,342)
Investment earnings and adjustments to market value	706,031
Net transfers in (out)	(2,034)
Miscellaneous	338,670
Total general revenues and transfers	<u>35,317,373</u>
Change in net assets	3,103,075
Net assets - beginning	16,898,597
Prior period adjustment	1,600,706
Net assets - ending	<u>\$ 21,602,378</u>

	8,619,130	-	-	8,619,130		
	1,308,911	-	-	1,308,911		
	2,502,646	-	-	2,502,646		
	3,958,771	-	-	3,958,771		
	1,245,377	-	-	1,245,377		
	16,686,213	-	-	16,686,213		
	(46,342)	(2,844)	-	(49,186)		
	706,031	4,811		710,842		
	(2,034)	3,600		1,566		
	338,670	-		338,670		
	<u>35,317,373</u>	<u>5,567</u>		<u>35,322,940</u>		
	3,103,075	79,504		3,182,579		
	16,898,597	994,597		17,893,194		
	1,600,706	-		1,600,706		
	<u>21,602,378</u>	<u>1,074,101</u>		<u>22,676,479</u>		

See accompanying independent auditor's report and notes to financial statements

**SCOTT COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2004

Assets and Resources:	General Fund	Special Revenue	Construction Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,045,552	\$ 147,399	\$ (67,618)	\$ 55,480	\$ 1,359,451	\$ 2,540,264
Accounts receivable						
Taxes – current	708,956	-	-	-	-	708,956
Taxes – delinquent	8,782	-	-	-	-	8,782
Accounts receivable	113,677	39,446	4,410,015	-	-	4,563,138
Intergovernmental – State	7,172	66,370	-	-	-	73,542
Intergovernmental – Indirect Federal	4,340	502,689	-	-	-	507,029
Intergovernmental - Direct Federal	-	16,861	-	-	-	16,861
Prepaid expenses	70,249	-	-	-	-	70,249
Investments	3,750,000	-	10,309,284	13,328,773	5,000	27,393,057
Total assets and resources	\$ 5,708,728	\$ 772,765	\$ 14,651,681	\$ 13,384,253	\$ 1,364,451	\$ 35,881,878
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	\$ 367,658	\$ 119,198	\$ 1,183,105	\$ 3,415	-	\$ 1,673,376
Accrued payroll and related expenses	104,133	-	-	-	-	104,133
Current portion of accumulated sick leave	234,298	-	-	-	-	234,298
Accrued vacation	249,514	-	-	-	-	249,514
Deferred revenue	241,112	653,567	-	-	-	894,679
Total liabilities	1,196,715	772,765	1,183,105	3,415	-	3,156,000
Fund Balances						
Reserved for:						
Facility improvement	911,039	-	4,749,961	-	-	5,661,000
Encumbrances	630,391	51,347	8,718,615	-	-	9,400,353
Other	565,234	-	-	13,308,088	-	13,873,322
Unreserved:						
Undesignated, reported in:						
General fund	2,405,349	-	-	-	-	2,405,349
Special revenue funds	-	(51,347)	-	-	-	(51,347)
Debt service funds	-	-	-	72,750	-	72,750
Building/FSPK funds	-	-	-	-	1,357,518	1,357,518
Permanent funds	-	-	-	-	6,933	6,933
Total fund balances	4,512,013	-	13,468,576	13,380,838	1,364,451	32,725,878
Total liabilities and fund balances	\$ 5,708,728	\$ 772,765	\$ 14,651,681	\$ 13,384,253	\$ 1,364,451	\$ 35,881,878

See accompanying independent auditor's report and notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2004

Total fund balance per fund financial statements \$ 32,725,878

Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets are not reported in this fund financial statement because
they are not current financial resources, but they are reported in the
statement of net assets. 61,082,052

Certain long-term assets are not reported in this fund financial statements
because they are not available to pay current-period expenditures, but
they are reported in the statement of net assets. 113,406

Certain liabilities (such as bonds payable, the long-term portion of accrued
sick leave, and accrued interest) are not reported in this fund financial
statement because they are not due and payable, but they are presented
in the statement of net assets. (72,318,958)

Net assets for governmental activities \$ 21,602,378

SCOTT COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2004

Revenues:	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
From local sources						
Taxes						
Property	\$ 4,956,553	\$ -	-	-	\$ 3,662,577	\$ 8,619,130
Motor vehicle	1,308,911	-	-	-	-	1,308,911
Utilities	2,502,646	-	-	-	-	2,502,646
Occupational license fee	3,958,771	-	-	-	-	3,958,771
Tuition and fees	209,530	-	-	-	-	209,530
Earnings on investments	120,330	4,120	37,255	544,238	88	706,031
Community service activities	-	5,000	-	-	-	5,000
Other local revenues	1,521,988	149,843	-	-	-	1,671,831
Intergovernmental – state	16,686,213	2,375,211	-	777,077	1,019,190	20,857,691
Intergovernmental – indirect federal	-	2,392,612	-	-	-	2,392,612
Intergovernmental – direct federal	46,820	-	-	-	-	46,820
On-behalf revenues	4,747,196	-	-	-	-	4,747,196
Total revenues	36,058,958	4,926,786	37,255	1,321,315	4,681,855	47,026,169
Expenditures:						
Instruction	22,021,165	4,195,720	-	-	-	26,216,885
Support services:						
Student	1,978,480	1,496	-	-	-	1,979,976
Instruction staff	1,524,842	258,888	-	-	-	1,783,730
District administrative	728,095	46,948	-	-	-	775,043
School administrative	2,009,643	-	-	-	-	2,009,643
Business	681,863	-	-	-	-	681,863
Plant operation and maintenance	3,295,756	3,628	-	-	110,826	3,410,210
Student transportation	2,743,813	38,366	-	-	-	2,782,179
Central office	-	-	-	-	-	-
Facilities acquisition and construction	175,556	-	7,290,044	-	-	7,465,600
Community service activities	271,062	438,243	-	-	-	709,305
Debt service	220,108	-	-	4,449,438	-	4,669,546
Food service	33,665	-	-	-	-	33,665
Other	-	-	-	-	-	-
Total expenditures	35,684,048	4,983,289	7,290,044	4,449,438	110,826	52,517,645
Excess (deficit) of revenues over expenditures	374,910	(56,503)	(7,252,789)	(3,128,123)	4,571,029	(5,491,476)

See accompanying independent auditor's report and notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - CONTINUED

GOVERNMENTAL FUNDS

Year ended June 30, 2004

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)						
Proceeds from sale of bonds	\$ -	\$ -	\$ 16,600,000	\$ -	\$ -	\$ 16,600,000
Proceeds from sale of fixed assets	4,490	-	-	-	-	4,490
Operating transfers in	720	56,503	460,514	2,805,541	-	3,323,278
Operating transfers out	(58,537)	-	(52,632)	(720)	(3,213,423)	(3,325,312)
Total other financing sources (uses)	<u>(53,327)</u>	<u>56,503</u>	<u>17,007,882</u>	<u>2,804,821</u>	<u>(3,213,423)</u>	<u>16,602,456</u>
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	321,583	-	9,755,093	(323,302)	1,357,606	11,110,980
Fund balance, July 1, 2003, as originally stated	4,190,430	-	3,713,483	13,704,140	6,845	21,614,898
Prior period adjustment	-	-	-	-	-	-
Fund balance, June 30, 2004	<u>\$ 4,512,013</u>	<u>\$ -</u>	<u>\$ 13,468,576</u>	<u>\$ 13,380,838</u>	<u>\$ 1,364,451</u>	<u>\$ 32,725,878</u>

See accompanying independent auditor's report and notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year ended June 30, 2004

Net change in total fund balances per fund financial statements	\$ 11,110,980
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	6,805,754
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(16,600,000)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	2,058,678
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(272,337)</u>
Change in net assets of governmental activities	\$ <u>3,103,075</u>

SCOTT COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2004

	Food Service and Summer Feeding Fund	Other Enterprise Funds	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 373,187	\$ 18,408	\$ 391,595
Inventory	57,304	-	57,304
Accounts receivable			
Accounts receivable	-	900	900
Intergovernmental – state	-	-	-
Intergovernmental – indirect federal	146,416	-	146,416
Intergovernmental – direct federal	-	-	-
Investments	-	-	-
Total current assets	<u>576,907</u>	<u>19,308</u>	<u>596,215</u>
<u>Noncurrent Assets</u>			
Capital assets	481,993	-	481,993
Investments	-	-	-
Total noncurrent assets	<u>481,993</u>	<u>-</u>	<u>481,993</u>
Total assets	<u>\$ 1,058,900</u>	<u>\$ 19,308</u>	<u>\$ 1,078,208</u>
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 1,063	\$ 3,044	\$ 4,107
Total current liabilities	<u>1,063</u>	<u>3,044</u>	<u>4,107</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	481,993	-	481,993
Unrestricted	<u>575,844</u>	<u>16,264</u>	<u>592,108</u>
Total net assets	<u>\$ 1,057,837</u>	<u>\$ 16,264</u>	<u>\$ 1,074,101</u>

See accompanying independent auditor's report and
notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

Year ended June 30, 2004

	Food Service and Summer Feeding Fund	Other Enterprise Funds	Total
Operating Revenues:			
Lunchroom sales	\$ 1,206,221	\$ -	\$ 1,206,221
Other operating revenues	<u>-</u>	<u>21,918</u>	<u>21,918</u>
Total operating revenues	<u>1,206,221</u>	<u>21,918</u>	<u>1,228,139</u>
Operating Expenses:			
Salaries and wages	927,228	62,813	990,041
Materials and supplies	994,240	2,880	997,120
Depreciation	81,309	-	81,309
Other operating expenses	<u>168,208</u>	<u>5,289</u>	<u>173,497</u>
Total operating expenses	<u>2,170,985</u>	<u>70,982</u>	<u>2,241,967</u>
Operating loss	(964,764)	(49,064)	(1,013,828)
Non-Operating Revenues (Expenses):			
Federal grants	907,138	-	907,138
Donated commodities	123,249	-	123,249
Contributions	3,250	-	3,250
State grants	30,219	23,909	54,128
Interest income	4,811	-	4,811
Loss on disposal of fixed assets	(2,844)	-	(2,844)
Transfers in	<u>-</u>	<u>3,600</u>	<u>3,600</u>
Total non-operating revenues	<u>1,065,823</u>	<u>27,509</u>	<u>1,093,332</u>
Net income (loss)	101,059	(21,555)	79,504
Net assets, July 1, 2003	<u>956,778</u>	<u>37,819</u>	<u>994,597</u>
Net assets, June 30, 2004	<u>\$ 1,057,837</u>	<u>\$ 16,264</u>	<u>\$ 1,074,101</u>

See accompanying independent auditor's report and
notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year ended June 30, 2004

Cash Flows from Operating Activities

Cash received from:

Lunchroom sales	\$ 1,192,699
Government grants	961,266
Other activities	25,168

Cash paid to/for:

Employees	(990,041)
Supplies	(953,336)
Other activities	<u>(173,497)</u>

Net cash provided by operating activities 62,259

Cash Flows from Non-Capital Financing Activities

Transfers 3,600

Cash Flows from Capital and Related Financing Activities

Purchases of capital assets (96,558)

Cash Flows from Investing Activities

Receipt of interest income 4,811

Net decrease in cash and cash equivalents (25,888)

Balances, beginning of year 417,483

Balances, end of year \$ 391,595

Reconciliation of operating income to net cash provided
by operating activities

Operating income \$ 79,504

Adjustments to reconcile operating income to net cash provided
by operating activities

Depreciation	81,309
Transfers	(3,600)
Gain (loss) on disposal of fixed assets	2,844
Interest	(4,811)
Change in assets and liabilities	
Receivables	(13,522)
Inventory	(18,288)
Accounts payable	<u>(61,177)</u>

Net cash provided by operating activities \$ 62,259

Schedule of non-cash transactions:

Donated commodities received from federal government \$ 123,249

See accompanying independent auditor's report and
notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2004

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 28,910	\$ 703,234
Accounts receivable	<u>-</u>	<u>148</u>
Total assets	<u>28,910</u>	<u>703,382</u>
Liabilities		
Accounts payable	-	27,121
Due to student groups	-	676,261
Due to employee groups	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>703,382</u>
Net Assets Held in Trust	\$ <u>28,910</u>	\$ <u>-</u>

See accompanying independent auditor's report and
notes to financial statements

SCOTT COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2004

	<u>Private Purpose Trust Funds</u>
Additions	
Interest and investment revenue	\$ 325
Miscellaneous revenue	<u>10,891</u>
Total additions	11,216
Deductions	
Benefits paid	<u>10,540</u>
Change in net assets	676
Net assets – beginning of year	<u>28,234</u>
Net assets – end of year	\$ <u><u>28,910</u></u>

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Scott County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Scott County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Scott County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Scott County Board of Education Finance Corporation – On November 8, 1988 the Board of Education resolved to authorize the establishment of the Scott County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Scott County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 51 through 52. This is a major fund of the District.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. Governmental Fund Types - Continued

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a major fund of the District.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- A. The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

II. Proprietary Fund Type (Enterprise Fund) - continued

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Accounting Procedures for Kentucky School Activity Funds.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property Taxes - Continued

The property tax rates assessed for the Year ended June 30, 2004, to finance operations were \$.399 per \$100 valuation for real property, \$.418 per \$100 valuation for business personal property and \$.548 per \$100 valuation for motor vehicles.

The District levies a 3.0% utility tax on all businesses and households within the District. The District also levies an occupational license tax of .5%.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, for which there is no threshold. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	10-15 years
Infrastructure	20 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave and Vacation

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Upon retirement or separation from the school district, an employee is also entitled to a payout of their accrued vacation. Vacation is accrued at varying rates depending on length of service. The maximum vacation accrual is 60 days.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On the government-wide financial statements, inventories are stated at cost and are expensed when used. On the fund financial statements, inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2004 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

Investments are recorded at their quoted market prices, with all realized gains and losses and changes in fair value recorded in the Statement of Activities. In the event an investment is purchased at a premium, the premium will be amortized monthly over the life of the investment.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. As of June 30, 2004, this line item had a negative balance due to the fact that bonds had been issued for construction projects that had not been completed as of year end. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$3,664,003. Of the total cash balance, \$200,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2004 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
First National Bank - checking	\$ 4,625,148	\$ 1,891,301
First National Bank - CDs	1,754,709	1,754,709
Farmers Bank - checking	18,012	17,968
Petty Cash	<u>25</u>	<u>25</u>
	<u>\$ 6,397,894</u>	<u>\$ 3,664,003</u>

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE C – CASH AND CASH EQUIVALENTS - CONTINUED

Breakdown per financial statements:

Governmental funds	\$ 2,540,264
Proprietary funds	391,595
Fiduciary funds	<u>732,144</u>
	\$ <u>3,664,003</u>

All of the District's deposits are classified as Category 1 (see Note D for explanation of categories).

NOTE D - INVESTMENTS

The District is allowed by state statute to invest in U.S. government agencies and U.S. treasuries which are obligations of the United States Government pledged by its full faith and credit. The District's investments are categorized to give an indication of the level of risk assumed:

Category 1	Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.
Category 2	Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
Category 3	Deposits which are not collateralized or insured.

The District has investments in United States agencies with a carrying value of \$10,325,095 as of June 30, 2004. All investments held by the District are classified as Category 1.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal Year ended June 30, 2004, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Land	\$ 2,784,323	\$ -	\$ -	\$ 2,784,323
Land improvements	1,547,096	86,965	-	1,634,061
Buildings and improvements	55,287,952	12,736,175	47,363	67,976,764
Technology equipment	7,397,311	850,197	655,236	7,592,272
Infrastructure	39,053	-	-	39,053
General equipment	879,809	199,300	1,219	1,077,890
Vehicles	3,639,434	439,980	183,556	3,895,858
Construction in progress	6,749,227	3,237,139	6,749,227	3,237,139
Totals at historical cost	<u>78,324,205</u>	<u>17,549,756</u>	<u>7,636,601</u>	<u>88,237,360</u>
Less: accumulated depreciation				
Land improvements	637,194	78,057	-	715,251
Buildings and improvements	15,492,904	1,501,148	27,471	16,966,581
Vehicles	2,423,158	253,688	183,556	2,493,290
Technology equipment	6,643,923	428,378	624,297	6,448,004
Infrastructure	6,834	1,953	-	8,787
Other equipment	444,600	80,014	1,219	523,395
Total accumulated depreciation	<u>25,648,613</u>	<u>2,343,238</u>	<u>836,543</u>	<u>27,155,308</u>
Governmental Activities Capital Assets – Net	<u>\$ 52,675,592</u>	<u>\$ 15,206,518</u>	<u>\$ 6,800,058</u>	<u>\$ 61,082,052</u>
<u>Government Activities</u>	<u>Balance July 1, 2003</u>			<u>Balance June 30, 2004</u>
Depreciable capital assets	\$ 43,142,042	\$ -	\$ -	\$ 55,060,591
Non-depreciable capital assets	<u>9,533,550</u>	<u>-</u>	<u>-</u>	<u>6,021,461</u>
Total	<u>\$ 52,675,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,082,052</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 1,181,332	\$ 92,808	\$ 14,130	\$ 1,260,010
Technology equipment	<u>60,795</u>	<u>3,749</u>	<u>2,749</u>	<u>61,795</u>
Totals at historical cost	<u>1,242,127</u>	<u>96,557</u>	<u>16,879</u>	<u>1,321,805</u>
Less: accumulated depreciation				
Food service equipment	713,840	78,785	11,286	781,339
Technology equipment	<u>58,699</u>	<u>2,523</u>	<u>2,749</u>	<u>58,473</u>
Total accumulated depreciation	<u>772,539</u>	<u>81,308</u>	<u>14,035</u>	<u>839,812</u>
Business-Type Activities Capital Assets – Net	<u>\$ 469,588</u>	<u>\$ 15,249</u>	<u>\$ 2,844</u>	<u>\$ 481,993</u>

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE E – CAPITAL ASSETS - CONTINUED

Depreciation expense for the year ended June 30, 2004 for governmental activities by function is summarized below:

Instructional	\$ 1,908,321
Instruction Student Support	1,474
Instruction Staff Support	48,609
District Administration	32,360
School Administration	54,803
Business Support Services	26,743
Plant Operations and Maintenance	40,521
Student Transportation	229,889
Community Services	518
Total	\$ <u>2,343,238</u>

NOTE F – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Scott County District aggregating \$70,525,000.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1995	\$ 13,600,000	5.000% - 5.900%
1996	1,415,000	4.300% - 5.000%
1997 (Ref)	4,345,000	3.900% - 4.500%
1998	2,875,000	4.000% - 4.900%
1998 (Ref)	1,145,000	4.050% - 4.250%
1999	6,900,000	3.600% - 4.500%
2000	1,100,000	4.250% - 4.600%
2001 (Ref)	18,965,000	3.125% - 4.750%
2002	12,000,000	3.000% - 5.000%
2004	12,100,000	2.000% - 4.300%
2004B	4,500,000	2.500% - 5.000%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Scott County Board of Education Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. During the current year, two new bond issues were made for the purpose of new school construction.

In 1988 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The Commission is not legally obligated to make payments after June 30, 2003. However, the Commission has expressed its intention to renew the agreement each biennial budget period until the related bonds are retired.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE F – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, excluding the defeased 1995 debt service and including amounts to be paid by the Commission, at June 30, 2004 for debt service (principal and interest) are as follows:

Year Ending	Scott County School Board		Kentucky School Facility Construction Commission		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 1,837,116	\$ 2,034,315	\$ 692,884	\$ 340,876	\$ 2,530,000	\$ 2,375,191
2006	1,847,624	2,032,518	702,376	315,583	2,550,000	2,348,101
2007	1,883,286	1,968,596	731,714	289,198	2,615,000	2,257,794
2008	1,927,129	1,900,944	757,871	261,082	2,685,000	2,162,026
2009	1,998,352	1,826,302	631,648	234,828	2,630,000	2,061,130
2010	2,061,941	1,756,301	518,059	213,948	2,580,000	1,970,249
2011	2,131,288	1,677,482	508,712	195,611	2,640,000	1,873,093
2012	2,216,925	1,593,734	528,075	176,068	2,745,000	1,769,802
2013	2,289,547	1,503,029	370,453	155,272	2,660,000	1,658,301
2014	2,374,712	1,405,818	385,288	140,721	2,760,000	1,546,539
2015	2,473,417	1,302,716	396,583	125,181	2,870,000	1,427,897
2016	2,576,491	1,193,275	358,509	109,122	2,935,000	1,302,397
2017	2,691,020	1,077,712	373,980	93,652	3,065,000	1,171,364
2018	2,809,879	956,413	390,121	77,511	3,200,000	1,033,924
2019	2,936,423	829,565	348,577	60,669	3,285,000	890,234
2020	3,057,475	693,094	202,525	45,957	3,260,000	739,051
2021	3,139,375	550,307	210,625	37,856	3,350,000	588,163
2022	3,285,688	395,820	219,312	29,168	3,505,000	424,988
2023	2,651,475	233,571	228,525	19,956	2,880,000	253,527
2024	2,701,765	118,521	238,235	10,244	2,940,000	128,765
	<u>\$ 48,890,928</u>	<u>\$ 25,050,033</u>	<u>\$ 8,794,072</u>	<u>\$ 2,932,503</u>	<u>\$ 57,685,000</u>	<u>\$ 27,982,536</u>

During the year ended June 30, 2002 the District issued advance refunding revenue bonds to pay the 1995 bond issue. The proceeds from this debt issue are in an irrevocable trust with an escrow agent and are used to pay the 1995 bonds when they become due. Total remaining principal obligation is \$ 12,840,000 and is included in both current and non-current portions of long-term obligations on the Statement of Net Assets. The bonds will be called on June 1, 2005 at \$102. The escrow account and associated debt are included in the Debt Service Fund.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE G - NOTES PAYABLE

Note payable to KISTA, due in semi-annual payment through June 1, 2008.
Interest rate is 1.5%.

\$ 40,000

Note payable to KISTA, due in semi-annual payments through June 1, 2008.
Interest rate is 2.0%.

20,000

Less current portion

60,000

15,000

\$ 45,000

Payments on these loans are due as follows:

June 30,

2005

\$ 15,000

2006

15,000

2007

15,000

2008

15,000

\$ 60,000

NOTE H - CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2004</u>
Buses	\$ 1,394,558

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2005	\$ 175,892
2006	135,142
2007	130,890
2008	97,872
2009	75,389
Thereafter	<u>153,072</u>
Total minimum lease payments	768,257
Less: Amount representing interest	<u>(92,796)</u>
Present Value of Net Minimum Lease Payments	\$ <u>675,461</u>

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE H – CAPITAL LEASE PAYABLE - CONTINUED

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2005	\$ 175,892
2006	135,142
2007	130,890
2008	97,872
2009	75,389
Thereafter	<u>153,072</u>
Total minimum lease payments	768,257
Less: Amount representing interest	<u>(92,796)</u>
Present Value of Net Minimum Lease Payments	\$ <u>675,461</u>

NOTE I – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office and other equipment provide the minimum future rental payments as of June 30, 2004 as follows:

Year ending June 30:

2005	\$ 55,053
2006	45,851
2007	38,292
2008	<u>18,032</u>
Total minimum payments	\$ <u>157,228</u>

Rent expense for the year ended June 30, 2004 was \$65,763.

NOTE J – PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the amount of \$ 1,600,706 was made to the Statement of Activities due to a portion of construction expenditures pertaining to Anne Mason Elementary made in Fiscal Year 2002 that were excluded from construction in progress at June 30, 2003. As this construction project was incomplete as of June 30, 2003, these expenditures should have been capitalized as part of construction in progress at June 30, 2003.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE K – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 7.34% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$29,313,870. The payroll for employees covered under KTRS was \$22,069,342 and for CERS was \$6,803,552.

The contribution requirement for CERS for the year ended June 30, 2004 was \$839,560 which consisted of \$499,381 from the Board and \$340,179 from the employees. The Board paid \$196,464 from federal grant monies to KTRS in matching contributions for federally funded employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>June 30, 2003</u>	CERS <u>June 30, 2003</u>
Assets available for benefits, at fair value	\$ 13,863,786,000	\$ 5,286,580,047
Pension benefit obligation	<u>16,594,781,000</u>	<u>4,417,597,802</u>
(Underfunded)/overfunded pension benefit obligations	\$ <u>(2,730,995,000)</u>	\$ <u>868,982,245</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2003 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE L- CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE M - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

NOTE N - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE O - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE P - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Debt Service	\$ (323,302)
Enterprise Fund	(21,555)

NOTE Q - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE R - TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	KETS Match	\$ 54,937
Operating	General	Enterprise	Summer Enrichment	3,600
Operating	Capital Outlay	Construction	Construction	460,514
Operating	Building	Debt Service	Debt Service	2,752,909
Operating	Construction	Debt Service	Prepaid Bond Interest	52,632
Operating	Debt Service	General	1992 Bond Closeout	720
Operating	Single Parent	Enterprise	Close Out Fund	23,855
Operating	Fiscal Agent	Enterprise	Close Out Fund	1,566

NOTE S - COMMITMENTS

Subsequent to the year ended June 30, 2004, the Board entered into construction contracts totaling \$1,475,531 for the re-roofing of both the Ninth Grade School and Central Office, the purchase of land for future construction of a middle school facility, additional land for use by Southern and Anne Mason elementary schools, site excavation and storm drainage for the new middle school, and various other renovation projects.

NOTE T - ON-BEHALF PAYMENTS

For the year ended June 30, 2004 total payments of \$ 4,747,196 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenue, expenditures, and changes in fund balances.